Sunrise Communications Holdings S.A.

Interim Financial Report for the nine-month period ended September 30, 2013

Facts & Figures

	January 1 - September 30, 2013	January 1 - September 30, 2012	July 1 - September 30, 2013	July 1 - September 30, 2012
Results of Operations				
(in '000 CHF, except where indicated)				
Revenue				
Mobile	942'785	975'402	329'909	336'024
Landline Services	414'746	429'594	140'391	135'437
thereof voice hubbing	*109'988*	*97'220*	*41'459*	*29'890*
Landline Internet	146'846	135'193	49'748	45'631
Total Revenue	1'504'377	1'540'189	520'047	517'092
Revenue (excluding hubbing)	*1'394'389*	*1'442'969*	*478'588*	*487'202*
EBITDA[1)]	462'479	488'360	170'446	177'103
EBITDA margin (%)	30.7%	31.7%	32.8%	34.2%
EBITDA margin (excluding voice hubbing) (%)	33.2%	33.8%	35.6%	36.4%
Subscriber Base (end of period)				
(in thousands)				
Mobile subscriber base (excl. M2M)	2'494.2	2'140.4		
Landline voice subscriber base	447.2	481.2		
Landline Internet subscriber base	354.3	371.5		
thereof XDSL	352.4	368.7		
thereof LLU	224.5	272.3		
ARPU				
(in CHF/month)				
Mobile Services	41.0	44.9	40.0	46.1
Landline Voice Services	41.7	43.7	40.7	42.4
Landline Internet Services	37.2	35.8	37.9	35.9
Employees				
FTEs	1'664.2	1'940.0		
Apprentices	101.0	89.0		

1) EBITDA stands for: operating income before depreciation and amortization, net financial result and income tax expense.

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Business

Overview

Sunrise Communications Holdings S.A. (the “Group” or the “Company”) was incorporated under the laws of Luxembourg as of September 9, 2010. The main operating entity of the Group is Sunrise Communications AG based in Zurich, Switzerland which is the second largest telecommunications provider in Switzerland based on revenues for the nine months ended September 30, 2013. Our integrated national mobile and landline network provides us with a strong competitive position. As an integrated service provider, we offer mobile voice and data, landline services (retail and wholesale voice, business services), landline Internet and IPTV services to both residential and business customers as well as to other operators. We are the leading non-incumbent operator in both the mobile and landline retail voice markets, with 2’494.2 thousand and 447.2 thousand subscribers respectively, as of September 30, 2013. We are also the third-largest landline Internet provider with 354.3 thousand subscribers, including Sunrise TV subscribers, as of September 30, 2013. We provide our landline services through our national landline network and our mobile services through our own mobile network based on GSM/GPRS/EDGE, UMTS/HSPA and LTE technologies.

Financial Data

The financial data in this report covers the period from January 1 to September 30, 2013.

Comparative figures for the three- and the nine-month periods ended September 30, 2012 are based on unaudited condensed consolidated interim financial statements of the Group for the three and nine month periods ended September 30, 2012.

Shareholders

Sunrise Communications Holdings S.A. is owned by Mobile Challenger Intermediate Group S.A., Luxembourg which itself is ultimately owned by Mobile Challenger Group S.à r.l.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Revenue

The Group's total revenue decreased year-on-year by 2.3% or CHF 35.8 million and amounted to CHF 1,504.4 million for the nine-month period ended September 30, 2013. The decrease in revenue is primarily attributable to lower mobile revenue of CHF 32.6 million and a decrease in landline service revenue of CHF 14.8 million partially offset by a growth in Internet service revenue of CHF 11.7 million.

During the third quarter of the year 2013 we generated net revenues of CHF 520.0 million, an increase of CHF 3.0 million or 0.6% compared with the same period in prior year.

Mobile

Mobile revenue fell by 3.3% to CHF 942.8 million from CHF 975.4 million for the nine months ended September 30, 2013. Mobile revenues decreased from CHF 336.0 million to CHF 329.9 million in the third quarter ending September 30, 2013 – a decrease of CHF 6.1 million or 1.8% primarily driven by lower postpaid and roaming revenues. Lebara's and Ortel's contribution after consolidation adjustments amounted to CHF 15.0 million in the three-month period ending September 30, 2013. The postpaid revenue decrease is mainly driven by the price reductions introduced in July 2012 and is only partially compensated by a higher subscriber base.

Landline Services

Landline services revenue decreased from CHF 429.6 million to CHF 414.7 for the nine months ended September 30, 2013, a year-on-year decrease of CHF 14.8 million, or 3.5%. Quarter-over-quarter, landline service revenue increased from CHF 135.4 million to CHF 140.4 or 3.7%. The year-over-year decrease is primarily attributable to a decrease in customer base and declining retail voice revenues. The quarter-over-quarter increase is primarily attributable to an increase in hubbing revenue from CHF 29.9 million to CHF 41.5 million.

Landline Internet

The Group reports a year-on-year growth in landline Internet revenue from CHF 135.2 million to CHF 146.8 million, or 8.6% for the nine months ended September 30, 2013. The Group reports a quarter-over-quarter increase in landline Internet revenue of 9.0% from CHF 45.6 million to CHF 49.7 million. The increase in landline Internet revenue is primarily attributable to the growth of our IPTV customer base.

Transmission Costs and Cost of Goods Sold

Transmission costs and cost of goods sold amounted to CHF 482.6 million for the nine months ended September 30, 2013, a year-on-year increase of CHF 8.8 million, or 1.8%, from CHF 473.8 million. The increase is mainly driven by higher wholesale volume.

Other Operating Expenses

During the nine-month period ended September 30, 2013 other external expenses decreased by CHF 27.8 million, or by 6.3%, from CHF 444.9 million to CHF 417.1 million. The decrease in other operating expenses is primarily attributable to lower marketing expenses due to lower marketing activities which is partially offset by higher system and maintenance expenses incurred during the nine-month period ended September 30, 2013.

Wages, Salaries and Pension Costs

Wages, salaries and pension costs were CHF 160.6 million for the nine-month period ended September 30, 2013, a year-on-year decrease of CHF 12.0 million, or 7.0%, from CHF 172.6 million which is primarily driven by a decrease of FTEs.

As required by the International Financial Reporting Standards (IFRS) the Group adopted IAS 19R – Employee Benefits as of January 1, 2013. The change was applied retrospectively in compliance with IAS 8. Therefore, comparative figures of the statements of financial position, the consolidated statements of income, the statement of cash flow and the statements of changes in equity were restated. Following the application of IAS 19R, the Group reassessed its employee benefit obligations and recognized a year-on-year decrease of employee benefit obligations amounting to CHF 5.1 million as of September 30, 2012 and a decrease in net income amounting to CHF 2.0 million for the nine month period ending September 30, 2012 (for further details with respect to the financial impact of IAS 19R refer to Note 4).

Other Income and Expenses, net

Other income and expenses, net amounted to CHF 18.4 million for the nine-month period ended September 30, 2013, a decrease of CHF 21.2 million, from CHF 39.6 million for the nine-month period ended September 30, 2012. The decrease in other income and expenses, net is primarily attributable to a decrease of aperiodic settlements of charges for access services which is only partially offset by lower costs related to the change of the Managed Service Provider (MSP). Please refer to Note 7 for further information.

EBITDA

The Group generated an EBITDA of CHF 462.5 million, a year-on-year decrease of CHF 25.9 million, or 5.3%, from

CHF 488.4 million for the nine months ended September 30, 2013. The EBITDA decrease is primarily driven by a decrease in revenue and other income and expenses, net, partially offset by lower operating expenses and wages driven by the cost measures introduced in Q4'12.

Depreciation and Amortization

Depreciation and amortization recorded during the nine-month period ending September 30, 2013 increased to CHF 369.3 million from CHF 275.3 million, a year-on-year increase of CHF 94.0 million, or 34.2%. The increase in depreciation and amortization is primarily driven by non-recurring write-offs of CHF 48.1 million related to the replacement of our mobile radio network with multi standard radio equipment performed during the first nine months of 2013 and the amortization of the spectrum license (CHF 22.6 million) acquired in July 2012.

Net Income

The Group reported a net loss of CHF 70.6 million for the nine-month period ended September 30, 2013, a year-on-year decrease of CHF 121.3 million from a net income of CHF 36.3 million. The decrease is mainly attributable to an increase in depreciation and amortization of CHF 94.0 million, a decrease in EBITDA of CHF 25.9 million and a change in net financial items of CHF 9.7 million.

Change in Networking Capital

The change in net working capital shows an increase of CHF 15.2 million for the nine-month period ended September 30, 2013 compared to a decrease of CHF 152.6 million reported for the same period in prior year. The change of net working capital is primarily attributable to changes in trade and other payables driven by a change in Capex spending patterns and improved long-term payment conditions negotiated. Please refer to Note 14 for further information.

Liquidity and Capital Resources

The Group reported cash and cash equivalents amounting to CHF 125.8 million as of September 30, 2013, a decrease of CHF 44.8 million compared to the cash position held by the Group as of December 31, 2012. The decrease of the cash and cash equivalents is primarily attributable to the repayment of the CHF Floating Rate Note amounting to CHF 175.0 million, the redemption of PECs of CHF 47.5 million (please refer to note 9) and the acquisition of Lebara GmbH and Treternity Ortel Mobile AG partially compensated by operational cash flows generated by the Group of CHF 357.3 million.

The Group's consolidated net debt position – consisting of floating rate notes, senior secured notes, senior notes and capital leases - amounted to CHF 2'251.8 million of which CHF 5.9 million are expected to be paid within 12 months (refer to note 11 for further details).

Certain Other Contractual Commitments

As of September 30, 2013 the Group's other contractual commitments amounted to CHF 584.7 million relating to operating lease agreements, maintenance contracts as well as open purchase commitments.

Purchase Price Allocation (PPA) & Embedded derivatives

The acquisition of Sunrise Communications AG, which gave rise to a change of control, was accounted for using the acquisition method of accounting. As such, the cost of the acquisition is measured as the fair value of the assets transferred, liabilities incurred and the equity interests issued by the acquirer, including the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured initially at their fair values at the acquisition date. The excess of the consideration transferred over the fair value of the acquirer's share of the identifiable net assets acquired is recorded as goodwill. The Group's valuation studies to allocate the purchase price to identifiable net assets were done in Q4'2010 and finalized in Q1'2011.

Following the refinancing transaction in July 2012, the Group recognized embedded derivatives in its financial statements. These embedded derivatives represent early redemption options related to financial instruments issued by the Group. The fair value of the embedded derivatives amounted to CHF 23.5 million as of September 30, 2013, a decrease of CHF 8.9 million from CHF 32.4 million reported as of December 31, 2012. The change in fair value is reported in the financial statement caption 'net financial items' in the table below.

For clarity of the underlying operational performance, the following table shows the condensed consolidated interim statements of income excluding the fair value adjustments made in relation with the acquisition of Sunrise Communications AG and embedded derivatives.

Effect of fair value adjustments resulting from the acquisition of Sunrise Communications AG & embedded derivatives on the Condensed Consolidated Interim Statements of Income

	January 1 - September 30, 2013 Before FV adjustments & Embedded derivatives	January 1 - September 30, 2013 Impact of FV adjustments & Embedded derivatives	January 1 - September 30, 2013 Including FV adjustments & Embedded derivatives
Revenue	**1'505'262**	**(885)**	**1'504'377**
Transmission costs and cost of goods sold	(482'555)	-	(482'555)
Other operating expenses	(417'125)	-	(417'125)
Wages, salaries and pension costs	(160'594)	-	(160'594)
Total operating expenses before other income and expenses, depreciation and amortization	**(1'060'274)**	-	**(1'060'274)**
Other income	21'353	-	21'353
Other expenses	(2'977)	-	(2'977)
Income before depreciation and amortization, net financial items and income taxes	**463'364**	**(885)**	**462'479**
Amortization and depreciation	(252'693)	(116'599)	(369'292)
Operating income	**210'671**	**(117'484)**	**93'187**
Net financial items	**(145'192)**	**(8'934)**	**(154'126)**
Income/(loss) before income taxes	**65'479**	(126'418)	**(60'939)**
Income taxes	(11'845)	2'226	(9'619)
Net income/(loss)	**53'634**	**(124'192)**	**(70'558)**

This table has been added for clarify reasons on the operational performance of the Group.

Principal Factors Affecting Mobile Services Revenues

Mobile Subscriber Base and ARPU Development

The table below sets forth selected subscriber data for our mobile business for the periods indicated, including an analysis by type of subscriber.

Mobile Subscriber Base ‘000

	September 30, 2013	September 30, 2012
Subscribers at end of period(1)	2'494.2	2'140.4
Subscriber growth over prior period	*16.5%*	
Of which:		
Postpaid(1)(2)	1'232.9	1'166.7
Prepaid(1)(3)	1'261.3	973.7

(1) Excludes MVNO subscribers but includes reseller-originated and yallo subscribers. Excludes machine-to-machine SIM cards (M2M).
(2) Postpaid mobile subscribers are counted in our subscriber base as long as they have an active contract.
(3) Prepaid mobile subscribers are counted in our subscriber base if they have had an activity event, such as a usage or refill, within the last 91 days.

Mobile ARPU CHF/month

	January 1 - September 30, 2013	January 1 - September 30, 2012	July 1 - September 30, 2013	July 1 - September 30, 2012
Mobile ARPU(1)	41.0	44.9	40.0	46.1
Decrease over prior period	*(8.8)%*		*(13.3)%*	

(1) The Group defines mobile ARPU as the total mobile revenue in the period divided by the average number of mobile subscribers in the period, which is subsequently divided by the number of months in the period. The average number of mobile subscribers during a period is calculated by adding together the number of active mobile SIM cards at the beginning and end of each month during the period, dividing by two and then averaging the results from all months during the period.

We report a year-on-year increase of our mobile subscriber base of 353.8 thousand from 2.1 million to 2.5 million as of September 30, 2013. The increase is primarily attributable to a growth of our prepaid subscribers amounting to 287.6 thousand driven by the acquisitions of Lebara and Ortel. Applying a 12-month activity rule on prepaid (as reported by Swisscom and Orange CH), our prepaid subscriber base as of September 30, 2013 would be 2.0 million and our total mobile subscriber base would amount to 3’232.9 thousand.

New year-on-year postpaid subscribers’ activations of 66.2 thousand were primarily attributable to competitive flat rate and mobile data plans as well as attractive hardware offers.

During this period, we retrospectively changed the method of counting our postpaid customer base. Mobile data subscriptions as part of our Internet Everywhere offering are counted as postpaid subscribers.

Mobile ARPU decreased by CHF 3.9, or 8.8%, to CHF 41.0 for the nine-month period ended September 30, 2013, from CHF 44.9 for the nine-month period ended September 30, 2012. The ARPU decrease is primarily driven by the mobile price reductions introduced in 2012 resulting in new customers joining with lower ARPUs and existing customers migrating to our new competitive flat rate and mobile data plans and a higher prepaid subscriber share following the acquisition of Lebara and Ortel.

Mobile Churn

Our prepaid and postpaid blended mobile churn rate for the nine-month period ended September 30, 2013 increased to 30.8% from 27.4% year-on-year, which we attribute primarily to an increased churn in our prepaid segment, partly due to pre- to postpaid migrations.

Mobile Termination Rates

The applicable mobile termination rates for the first six months of 2013 and the full year 2012 were CHF 0.07 per minute for mobile calls terminating on Swisscom’s mobile network and CHF 0.0875 per minute for mobile calls terminating on either Orange's network or our network. Starting July 1, 2013 the applicable mobile termination rates for calls terminating on Swisscom's mobile network amount to CHF 0.065 per minute and those for calls terminating on Orange's and our network amount to CHF 0.0825 per minute.

Principal Factors Affecting Landline Services Revenues

Subscriber Base

The table below sets forth selected subscriber data for our landline retail voice subscribers.

Retail Voice Subscriber Base (1) ‘000

	September 30, 2013	September 30, 2012
Retail Voice	447.2	481.2
Decrease over prior period	*(7.1)%*	
Of which:		
LLU	224.5	272.3
Decrease over prior period	*(17.5)%*	

(1) In our retail voice business, we report subscribers based on activity within the last month.

The total number of our retail voice subscribers decreased by 34.0 thousand, or 7.1%, as of September 30, 2013 to 447.2 thousand from 481.2 thousand as of September 30, 2012. We attribute the decrease to the departure of retail voice-only CPS customers; including customers acquired as part of the acquisition of Tele2 Switzerland in 2008 as well as clients churning from our retail voice network off the Sunrise network or are substituting their service with mobile services.

ARPU

The table below sets forth our retail voice ARPU for the periods indicated.

Landline Services ARPU CHF / month

	January 1 - September 30, 2013	January 1 - September 30, 2012	July 1 - September 30, 2013	July 1 - September 30, 2012
Retail Voice ARPU (1)	41.7	43.7	40.7	42.4
Decrease over prior period	*(4.7)%*		*(4.1)%*	

(1) We define landline retail voice ARPU as the total retail voice revenue in the period divided by the average number of retail voice subscribers in the period, which is subsequently divided by the number of months in the period. The average number of retail voice subscribers in a period is calculated by adding together the number of retail voice subscribers at the beginning and end of each month during the period, dividing by two and then averaging the results from all months during the period.

Retail voice ARPU decreased year-on-year by CHF 2.0 or 4.7% to CHF 41.7 for the nine-month period ended September 30, 2013, from CHF 43.7. We attribute the year-on-year decrease for the nine-month period primarily to the reduction in voice volumes.

Principal Factors Affecting Landline Internet Revenues

Subscriber Base

The table below sets forth selected subscriber data for our landline Internet subscribers, including Sunrise TV subscribers.

Landline Internet Subscriber Base[1] ‘000

	September 30, 2013	September 30, 2012
Landline internet	354.3	371.5
Decrease over period	*(4.6)%*	
Of which:		
Broadband BBCS	127.8	96.4
Increase over period	*32.6%*	
Broadband LLU	224.5	272.3
Decrease over period	*(17.5)%*	
Sunrise TV [2]	65.6	N/A

(1) In our landline Internet business, we report broadband connectivity services (BBCS) subscribers without ARB based on technical installations, while we report BBCS subscribers with ARB and LLU subscribers based on the number of active contracts. We currently pay fees to Swisscom of CHF 15.80 per month for each LLU line and CHF 28.00 per month for each BBCS line.
(2) Sunrise TV was launched end of March 2012.

The total number of our landline Internet subscribers declined year-on-year by 17.2 thousand or 4.6%, from 371.5 thousand to 354.3 thousand as of September 30, 2013 year-on-year. The total number of broadband subscribers, including both LLU and BBCS services likewise decreased by 16.4 thousand or 4.4% to 352.3 from 368.7, for the period ending September 30, 2013 compared to the same period in prior year. The decline of LLU customers subscribing to ADSL products was only partially offset by an increase of BBCS customers using high-bandwidth VDSL products (i.e. TV customers bundling voice/Internet and IPTV).

ARPU

The table below sets forth our landline Internet, including Sunrise TV ARPU for the periods indicated.

Landline Internet ARPU CHF / month

	January 1 - September 30, 2013	January 1 - September 30, 2012	July 1 - September 30, 2013	July 1 - September 30, 2012
Landline Internet ARPU [1]	37.2	35.8	37.9	35.9
Growth over period	*3.9%*		*5.6%*	
Blended Internet ARPU [2]	40.9	-	42.4	-

(1) We define landline Internet ARPU as the total landline Internet ADSL revenue in the period divided by the average number of landline Internet ADSL subscribers in the period, which is subsequently divided by the number of months in the period. The average number of landline Internet ADSL subscribers in a period is calculated by adding together the number of landline Internet ADSL subscribers at the beginning and end of each month during the period, dividing by two and then averaging the results from all months during the period. For purposes of calculating landline Internet ARPU, landline Internet revenue includes revenue generated from monthly subscription fees but does not include dial-up revenue and revenue from the sale of customer premises equipment, such as modems.
(2) We define the blended Internet + TV ARPU as the total landline ADSL revenue plus service revenue from the IPTV business divided by the average number of landline Internet ADSL subscribers

Landline Internet ARPU increased by 1.4 CHF or 3.9% from CHF 35.8 to CHF 37.2 year-on-year driven by Sunrise TV customers.

Material affiliate transactions
Sunrise Communications AG acts as a central counterparty to external financial institutions for all derivative instrument transactions of the Group (refer to note 11). Where necessary, back-to-back agreements are in place between Sunrise Communications AG and the respective debt holding group entities, mirroring the external agreements with financial institutions.

Material contractual arrangements
In September 2013 Sunrise Communications AG entered into a strategic partnership with Swiss Fibre Net AG for the construction of an area-wide FTTH network.

Material debt instruments
On July 4, 2013 Sunrise utilized CHF 95 million under the Revolving Credit Facility to fund the acquisitions of Lebara GmbH.

On July 31, 2013 Sunrise redeemed the CHF175 million CHF Floating Rate Senior Secured Notes using existing cash.

Credit Ratings
There were no changes to the Group's credit rating in the 3rd quarter of the year ending September 30, 2013.

Material risk factors
Sunrise operates a centralized risk management system which distinguishes between strategic and operating risks. Competition, network performance and maintenance, changes in regulations, acceptance by market of newly launched products are the main risks and uncertainties the Group is facing.

All identified risks are quantified (according to their realization probability and impact) and tracked on a risk schedule. This risk schedule is subject to an annually repeated detailed discussion process in the Group's Board of Directors which is scheduled for the 4th quarter 2013.

The recent development on the FX market and the strong Swiss franc do not have a material net effect on the Group, as Sunrise is predominantly active in the domestic market. The foreign currency risk arising from loans and notes denominated in Euros have been fully and the interest rate risk arising from external loans and notes have been partially hedged by the Group.

Material recent developments
There were no material recent developments during the 3rd quarter ending September 30, 2013.

Acquisition, disposals and recapitalizations
Sunrise Communications AG signed a share purchase agreement for the acquisition of 100% of the common shares of Lebara GmbH, Switzerland, a company focusing on mobile prepaid services for low cost international calls. The closing of the transaction occurred on July 1, 2013, the date on which the legal ownership of the shares and the control were transferred to Sunrise Communications AG.

Sunrise Communications acquired Treternity Ortel Mobile AG, a company focusing on mobile prepaid services for low cost international calls. The closing of the transaction occurred on July 18, 2013, the date on which the legal ownership of the shares and the control were transferred to Sunrise Communications AG.

Sunrise Communications Holdings S.A.

Condensed consolidated interim financial statements for the nine-month period ended September 30, 2013 (unaudited)

Condensed Consolidated Interim Statements of Income CHFk

	Note	January 1 - September 30, 2013 Unaudited	January 1 - September 30, 2012 Unaudited *Restated**	July 1 - September 30, 2013 Unaudited	July 1 - September 30, 2012 Unaudited *Restated**
Revenue	**5,6**	**1'504'377**	**1'540'189**	**520'047**	**517'092**
Transmission costs and cost of goods sold		(482'555)	(473'819)	(172'450)	(153'722)
Other operating expenses		(417'125)	(444'944)	(130'714)	(147'652)
Wages, salaries and pension costs		(160'594)	(172'623)	(54'153)	(56'914)
Total operating expenses before other income and expenses, depreciation and amortization		**(1'060'274)**	**(1'091'386)**	**(357'317)**	**(358'288)**
Other income	7	21'353	64'272	9'942	31'245
Other expenses	7	(2'977)	(24'715)	(2'226)	(12'946)
Income before depreciation and amortization, net financial items and income taxes		**462'479**	**488'360**	**170'446**	**177'103**
Amortization	8	(173'883)	(144'385)	(59'068)	(48'230)
Depreciation	8	(195'409)	(130'893)	(60'819)	(46'939)
Operating income		**93'187**	**213'081**	**50'559**	**81'933**
Foreign currency (losses) / gains, net		(19'041)	7'123	5'706	(8'823)
Financial income		108'938	113'829	31'721	58'325
Financial expenses		(244'023)	(284'777)	(88'140)	(116'513)
Net financial items	**10**	**(154'126)**	**(163'825)**	**(50'713)**	**(67'011)**
(Loss) / income before income taxes		**(60'939)**	**49'256**	**(154)**	**14'922**
Income taxes		(9'619)	(12'991)	(3'949)	2'321
Net (loss) / income		**(70'558)**	**36'265**	**(4'103)**	**17'243**
Net (loss) / income attributable to equity holders of the Company		**(70'558)**	**36'265**	**(4'103)**	**17'243**

* Certain amounts above do not correspond to the consolidated interim financial statements as of September 30, 2012 as they include the adjustments detailed in Note 4.

The accompanying notes form an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Comprehensive Income CHFk

	Note	January 1 - September 30, 2013 Unaudited	January 1 - September 30, 2012 Unaudited *Restated**	July 1 - September 30, 2013 Unaudited	July 1 - September 30, 2012 Unaudited *Restated**
Net (loss) / income		**(70'558)**	**36'265**	**(4'103)**	**17'243**
Actuarial gains / (losses) related to defined benefit pension plans		6'781	(7'216)	3'077	-
Income tax effect		(1'424)	1'558	(646)	-
Net other comprehensive income / (loss) not to be reclassified to profit and loss in subsquent periods		**5'357**	**(5'658)**	**2'431**	-
Cash flow hedge gains		12'915	35'276	674	17'211
Income tax effect		37	(581)	-	(471)
Net other comprehensive income to be reclassified to profit and loss in subsquent periods		**12'952**	**34'695**	**674**	**16'740**
Other comprehensive income, net of tax		**18'309**	**29'037**	**3'105**	**16'740**
Total comprehensive (loss) / income		**(52'249)**	**65'302**	**(998)**	**33'983**
Comprehensive (loss) / income attributable to equity holders of the Company		**(52'249)**	**65'302**	**(998)**	**33'983**

* Certain amounts above do not correspond to the consolidated interim financial statements as of September 30, 2012 as they include the adjustments detailed in Note 4.

The accompanying notes form an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Financial Position

Assets CHFk

	Note	September 30, 2013 Unaudited	December 31, 2012 Unaudited *Restated**
Non-current assets			
Intangible assets		2'809'341	2'849'595
Property, plant and equipment		915'159	935'957
Derivative financial assets	12	25'374	32'403
Other non-current assets		200	153
Total non-current assets		**3'750'074**	**3'818'108**
Current assets			
Inventories		35'715	35'792
Trade and other receivables		348'482	336'058
Prepaid expenses		23'150	24'665
Cash and cash equivalents		125'783	170'601
Total current assets		**533'130**	**567'116**
Total assets		**4'283'204**	**4'385'224**

* Certain amounts above do not correspond to the annual consolidated financial statements as of December 31, 2012 as they include the adjustments detailed in Note 4.

The accompanying notes form an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Financial Position

Equity and liabilities CHFk

	Note	September 30, 2013 Unaudited	December 31, 2012 Unaudited *Restated**
Equity			
Common shares, share premium and PECs	9	828'270	848'519
Valuation reserve		(14'906)	(27'858)
Accumulated deficit		(119'598)	(27'505)
Total equity		**693'766**	**793'156**
Non-current liabilities			
Loans and notes	11	2'214'872	2'264'608
Non-current portion of financial leases		31'036	34'744
Non-current trade and other payables	15	204'189	195'000
Deferred tax liabilities		246'481	241'795
Provisions		110'517	113'916
Employee benefit obligations		72'420	75'120
Derivative financial liabilities	12	140'389	175'513
Deferred income		16'060	17'483
Total non-current liabilities		**3'035'964**	**3'118'179**
Current liabilities			
Current portion of financial leases	11	5'903	5'634
Trade and other payables	15	457'860	369'904
Income tax payable		8'664	17'285
Deferred income		46'096	46'676
Provisions		33'324	31'668
Other current liabilities		1'627	2'722
Total current liabilities		**553'474**	**473'889**
Total liabilities		**3'589'438**	**3'592'068**
Total equity and liabilities		**4'283'204**	**4'385'224**

* Certain amounts above do not correspond to the annual consolidated financial statements as of December 31, 2012 as they include the adjustments detailed in Note 4.

The accompanying notes form an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Cash Flow CHFk

	Note	January 1 - September 30, 2013 Unaudited	January 1 - September 30, 2012 Unaudited *Restated**	July 1 - September 30, 2013 Unaudited	July 1 - September 30, 2012 Unaudited *Restated**
(Loss)/income before income taxes		**(60'939)**	**49'256**	**(154)**	**14'922**
Amortization		173'883	144'385	59'068	48'230
Depreciation		195'409	130'893	60'819	46'939
Gain on disposal of property, plant and equipment		(3)	(288)	-	(288)
Movement in pension		1'408	1'229	554	674
Movement in provisions		(8'455)	2'728	(1'595)	2'728
Change in net working capital	14	15'199	(152'629)	36'770	(33'209)
Cash flow from operating activities before net financial items and tax		**316'502**	**175'574**	**155'462**	**79'996**
Financial income	10	(108'938)	(113'829)	(31'721)	(58'325)
Financial expense	10	244'023	284'777	88'140	116'513
Foreign currency gains/(losses), net		19'253	(6'848)	(4'697)	7'565
Interest received		61'007	107'613	2'498	52'335
Interest paid		(154'480)	(203'463)	(88'526)	(62'470)
Corporate income and withholding tax paid		(19'997)	(51'023)	(10'886)	(19'439)
Total cash flow from operating activities		**357'370**	**192'801**	**110'270**	**116'175**
Acquisition of a subsidiary, net of cash acquired	16	(95'662)	-	(95'662)	-
Purchase of property, plant and equipment		(155'796)	(109'951)	(70'949)	(56'316)
Purchase of intangible assets		(20'797)	(312'304)	(7'736)	(296'372)
Sale of property, plant and equipment		544	11'464	-	11'464
Short-term deposit reclassified to/from cash and cash equivalents during the period		-	100'052	-	-
Total cash flow used in investing activities		**(271'711)**	**(310'739)**	**(174'347)**	**(341'224)**
Redemption of PECs		(47'548)	-	(27'017)	-
Proceeds from long-term loans and notes		95'000	891'415	95'000	891'415
Repayments of long-term loans and notes		(175'000)	(1'093'656)	(175'000)	(1'049'301)
Repayments of capital leases		(3'439)	(3'835)	(1'603)	(1'010)
Total cash flow used in financing activities		**(130'987)**	**(206'076)**	**(108'620)**	**(158'896)**
Total cash flow		**(45'328)**	**(324'014)**	**(172'697)**	**(383'945)**
Cash and cash equivalents at January 1		170'601	485'437		
Cash and cash equivalents at July 1				298'763	543'032
Foreign currency impact on cash		510	(2'124)	(283)	212
Cash and cash equivalents at September 30		**125'783**	**159'299**	**125'783**	**159'299**

* Certain amounts above do not correspond to the consolidated interim financial statements as of September 30, 2013 as they include the adjustments detailed in Note 4.

The accompanying notes form an integral part of the condensed consolidated interim financial statements.

Consolidated Statements of Changes in Equity (unaudited) CHFk

	Common shares	Share premium	PECs	Valuation reserve	Accumulated deficit	Total
Equity at January 1, 2013	**1'000**	**125'876**	**721'643**	**(27'858)**	**(32'490)**	**788'171**
Restatement [1)]	-	-	-	-	4'985	4'985
Equity at January 1 restated	**1'000**	**125'876**	**721'643**	**(27'858)**	**(27'505)**	**793'156**
Net loss for the period	-	-	-	-	(70'558)	(70'558)
Other comprehensive income	-	-	-	12'952	5'357	18'309
Total comprehensive income/loss	**-**	**-**	**-**	**12'952**	**(65'201)**	**(52'249)**
Prior year reclassification	-	-	-	-	407	407
Repayment of PEC's	-	-	(20'249)	-	(27'299)	(47'548)
Equity attributable to the equity holders of the parent company at September 30, 2013	**1'000**	**125'876**	**701'394**	**(14'906)**	**(119'598)**	**693'766**

	Common shares	Share premium	PECs	Valuation reserve	Accumulated deficit	Total
Equity at January 1, 2012	**1'000**	**125'876**	**805'698**	**(64'993)**	**(41'520)**	**826'061**
Restatement [1)]	**-**	**-**	**-**	**-**	3'766	**3'766**
Equity at January 1 restated	**1'000**	**125'876**	**805'698**	**(64'993)**	**(37'754)**	**829'827**
Net income for the period	-	-	-	-	36'265	36'265
Other comprehensive income/loss	**-**	**-**	**-**	34'695	(5'658)	29'037
Total comprehensive income	**-**	**-**	**-**	**34'695**	**30'607**	**65'302**
Equity attributable to the equity holders of the parent company at September 30, 2012	**1'000**	**125'876**	**805'698**	**(30'298)**	**(7'147)**	**895'129**

[1)] Please refer to note 4 for further details related to the restatement.

The accompanying notes form an integral part of the condensed consolidated interim financial statements.

Notes to Condensed Consolidated Interim Financial Statements

Overview

Note 1 General information

Sunrise Communications Holdings S.A. (the "Company" or the "Group") has its registered office at Avenue Monterey 20, L-2163 Luxembourg. Sunrise Communications Holdings S.A. holds indirectly 100% of its principal operating company, Sunrise Communications AG, which has its registered office at Binzmühlestrasse 130, CH-8050 Zurich, Switzerland.

Sunrise Communications AG is the second-largest full-range telecommunications provider in Switzerland, and offers mobile voice and data, landline services (retail and wholesale voice, business and integration services), landline Internet including IPTV services to both residential and business customers, as well as to other operators. Sunrise has its own national backbone landline and ISP network, as well as its own mobile network based on GSM/EDGE, UMTS/HSDPA and LTE technologies. In connection with the provision of services Sunrise resells handsets manufactured by 3rd party suppliers.

These condensed consolidated interim financial statements were approved for issue by the Company's Board of Directors on November 20, 2013.

Note 2 Basis of preparation

These financial statements are the condensed consolidated interim financial statements of Sunrise Communication Holdings S.A. as of and for the nine months ended September 30, 2013. They have been prepared in accordance with IAS 34, "Interim financial reporting" – as adopted by the European Union. These condensed consolidated interim financial statements should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2012.

Foreign currency translation
The condensed consolidated interim financial statements are presented in CHF which is the functional currency of the Parent Company and each of its subsidiaries.

The following table summarizes the principal exchange rates used by the Group:

Currency	Balance Sheet		Income Statement and Cash Flow	
	September 30, 2013	December 31, 2012	September 30, 2013	September 30, 2012
Euro	1.2239	1.2077	1.2403	1.2195
USD Dollar	0.9049	0.9154	0.9443	0.9476

Note 3 Accounting estimates and judgments

Accounting estimates and judgments
The preparation of the condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Those estimates affect mainly provisions, goodwill impairment tests, employee benefit obligations, allowance for doubtful receivables, embedded derivatives and taxes. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the period ended December 31, 2012 except for the changes disclosed in Note 4.

Note 4 New accounting standards

The Group applied all standards and interpretations which had become effective for the financial year beginning January 1, 2013. The following new standards and amendments to standards are effective for the first time for the financial year beginning January 1, 2013:

IAS 1 – Presentation of Items of Other Comprehensive Income

These amendments to IAS 1 introduce a new grouping of items presented in other comprehensive income (OCI). The amendment affected presentation and disclosure only and had no impact on the Group's financial position or performance.

IAS 19 – Employee Benefits (revised 2011)

IAS 19 revised (IAS 19R) includes a number of amendments to the accounting for defined benefit plans such as expected returns on plan assets that are no longer recognised in profit & loss, instead there is a requirement to recognize interest on the net defined benefit obligation in profit & loss, calculated using the discount rate used to measure the defined benefit obligation. IAS 19R requires a restatement of previous periods. As a consequence, the Group restated its comparative figures. The impact on the consolidated balance sheet, consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flow and the consolidated statement of changes in equity is presented below:

Retrospective application of IAS 19R — CHFk

	Reported	Adjustment	Restated
Balance sheet at January 1, 2012			
Deferred tax liabilities	236'956	1'001	237'957
Employee benefit obligations	76'357	(4'767)	71'590
Equity	**826'061**	**3'766**	**829'827**
Balance sheet at September 30, 2012			
Deferred tax liabilities	214'125	1'067	215'192
Employee benefit obligations	86'384	(5'081)	81'303
Equity	**891'115**	**4'014**	**895'129**
Balance sheet at January 1, 2013			
Deferred tax liabilities	240'470	1'325	241'795
Employee benefit obligations	81'430	(6'310)	75'120
Equity	**788'171**	**4'985**	**793'156**
Income statement January 1 - September 30, 2012			
Wages, salaries and pension costs	(171'642)	(980)	(172'623)
EBITDA	**489'339**	**(980)**	**488'360**
Financial expenses	(283'181)	(1'596)	(284'777)
Income taxes	(13'532)	541	(12'991)
Net income	**38'300**	**(2'035)**	**36'265**
Statement of comprehensive income January 1 - September 30, 2012			
Net income	**38'300**	**(2'035)**	**36'265**
Actuarial losses related to defined benefit pension plans	(10'106)	2'890	(7'216)
Income taxes on actuarial losses	2'165	(607)	1'558
Other comprehensive income	**26'752**	**2'283**	**29'037**
Total comprehensive income	**65'054**	**248**	**65'302**
Statements of Cash Flows January 1 - September 30, 2012			
Income before income taxes	51'832	(2'576)	49'256
Movement in pension	248	981	1'229
Non cash-effective financial items	169'353	1'596	112'760
Cash flow from operating activities	**192'801**	**-**	**192'801**

Retrospective application of IAS 19R			CHFk
Income statement full year 2012			
Wages, salaries and pension costs	(218'555)	(1'830)	(220'385)
EBITDA	**631'058**	**(1'830)**	**629'228**
Financial expenses	(360'503)	(2'163)	(362'666)
Income taxes	(16'144)	839	(15'305)
Net income	**19'219**	**(3'154)**	**16'065**
Statement of comprehensive income full year 2012			
Net income	**19'219**	**(3'154)**	**16'065**
Actuarial losses related to defined benefit pension plans	(11'587)	5'536	(6'051)
Income taxes on actuarial losses	2'476	(1'163)	1'313
Other comprehensive income	**29'738**	**4'373**	**34'111**
Total comprehensive income	**48'957**	**1'219**	**50'176**
Statements of Cash Flows full year 2012			
Income before income taxes	**35'363**	**(3'993)**	**31'370**
Movement in pension	**(6'107)**	**1'830**	**(4'277)**
Cash flow from operating activities before net financial items and tax	**383'662**	**1'830**	**385'492**

IFRS 13 – Fair Value Measurement
The new standard establishes a single source of guidance for all fair value measurements and provides guidance on how to measure fair values under IFRS. The application of IFRS 13 has not materially impacted the financial position and performance of the Group.

IFRS 13 also requires specific disclosures on fair values in the consolidated annual financial statements. Some of these disclosures are specifically required by IAS 34 ‘Interim Financial Reporting’ thereby affecting the condensed consolidated interim financial statements. The Group provides these disclosures in Note 13.

Several other new standards and amendments apply for the first time in 2013. However, they do not impact the condensed consolidated interim financial statements of the Group.

Note 5 Segment reporting

The operating segments have been determined based on the Management reports reviewed by the Board of Directors. The Group’s organizational structure reflects the different customer groups to which the Group provides its telecommunication products and services: ‘Residential’, ‘Business’, ‘Wholesale’ and a reportable segment ‘Head Office’ which includes finance, IT and technology functions of the Group.

Residential provides fixed line and mobile services to residential customers. Through its investments in local-loop unbundling (LLU) and IPTV, Sunrise focuses on selling its products in the Swiss telecommunications market by marketing bundled offers in Fixnet/Internet, Mobile and IPTV.

Business provides a full range of products and services, from fixed-line and mobile communications to Internet and data services as well as integration services to different business areas: Single office and home office (‘Soho’), small and medium enterprises (‘SME’), and large corporate clients.

The Wholesale product portfolio covers voice, data, Internet and infrastructure services such as carrier and roaming services which are marketed to national and international telecom service providers as well as Mobile virtual network operators (MVNO’s).

Head Office activities comprise support units such as Network, IT and Customer Care as well as staff functions like Finance, HR and Strategy. Furthermore certain fees and sundry revenues and payments of reminder fees are allocated to this operating segment.

The accounting policies applicable to the reportable segments are the same as the Group’s accounting policies that are applied to the consolidated financial statements for the period ended December 31, 2012 and those disclosed in Note 3 above.

Performance is measured based on ‘Income before depreciation and amortization (EBITDA)’ as included in the internal financial reports reviewed by the Board of Directors. EBITDA is defined as operating income before depreciation and amortization, net financial result and income tax expenses. The EBITDA earned by each segment is considered to be an adequate measure of the operating performance of the segments reported to the Board of Directors for the purposes of resource allocation and performance assessment.

Assets and liabilities are not allocated to operating segments in the management reports reviewed by the Board of Directors, as the review focuses on the development of net working capital on Group level.

Activities CHFk

	Residential		Business		Wholesale[1)]		Head Office activities		Total	
	January 1 - September 30, 2013 Unaudited	January 1 - September 30, 2012 Unaudited *Restated*	January 1 - September 30, 2013 Unaudited	January 1 - September 30, 2012 Unaudited *Restated*	January 1 - September 30, 2013 Unaudited	January 1 - September 30, 2012 Unaudited *Restated*	January 1 - September 30, 2013 Unaudited	January 1 - September 30, 2012 Unaudited *Restated*	January 1 - September 30, 2013 Unaudited	July 1 - September 30, 2012 Unaudited *Restated*
Revenue										
External customers	1'032'278	1'075'167	250'449	255'698	200'229	199'667	21'422	9'657	1'504'377	1'540'189
Intra-segment revenue	-	-	-	-	16'641	10'799	-	-	16'641	10'799
Total	**1'032'278**	**1'075'167**	**250'449**	**255'698**	**216'871**	**210'466**	**21'422**	**9'657**	**1'521'018**	**1'550'988**
Transmission costs and costs of goods sold										
External customers	(254'424)	(254'076)	(85'181)	(86'597)	(142'856)	(133'189)	(93)	43	(482'555)	(473'819)
Inter-segment costs	(16'641)	(10'799)	-	-	-	-	-	-	(16'641)	(10'799)
Total	**(271'066)**	**(264'875)**	**(85'181)**	**(86'597)**	**(142'856)**	**(133'189)**	**(93)**	**43**	**(499'196)**	**(484'618)**
Other operating expenses	(187'745)	(232'772)	(28'214)	(34'189)	(3'729)	(5'038)	(197'437)	(172'945)	(417'125)	(444'944)
Wages, salaries and pension costs	(36'179)	(40'054)	(42'740)	(43'192)	(2'386)	(7'401)	(79'289)	(81'976)	(160'594)	(172'623)
Other income	11'797	13'552	2'197	2'373	-	-	7'359	48'346	21'353	64'272
Other expenses	-	-	-	-	-	-	(2'977)	(24'715)	(2'977)	(24'715)
EBITDA	**549'085**	**551'019**	**96'512**	**94'093**	**67'899**	**64'837**	**(251'016)**	**(221'591)**	**462'479**	**488'360**

[1)] Including hubbing revenue of CHFk 109,988 generated in 2013 and CHFk 97,220 generated in 2012

Activities CHFk

	Residential		Business		Wholesale[1]		Head Office activities		Total	
	July 1 - September 30, 2013 Unaudited	July 1 - September 30, 2012 Unaudited *Restated*	July 1 - September 30, 2013 Unaudited	July 1 - September 30, 2012 Unaudited *Restated*	July 1 - September 30, 2013 Unaudited	July 1 - September 30, 2012 Unaudited *Restated*	July 1 - September 30, 2013 Unaudited	July 1 - September 30, 2012 Unaudited *Restated*	July 1 - September 30, 2013 Unaudited	July 1 - September 30, 2012 Unaudited *Restated*
Revenue										
External customers	363'764	362'732	84'482	84'941	64'138	65'479	7'663	3'940	520'047	517'092
Intra-segment revenue	-	-	-	-	11'385	3'225	-	-	11'385	3'225
Total	**363'764**	**362'732**	**84'482**	**84'941**	**75'523**	**68'704**	**7'663**	**3'940**	**531'432**	**520'317**
Transmission costs and costs of goods sold										
External customers	(92'050)	(84'607)	(28'555)	(27'568)	(51'843)	(41'544)	(1)	(3)	(172'450)	(153'722)
Inter-segment costs	(11'385)	(3'225)	-	-	-	-	-	-	(11'385)	(3'225)
Total	**(103'435)**	**(87'832)**	**(28'555)**	**(27'568)**	**(51'843)**	**(41'544)**	**(1)**	**(3)**	**(183'834)**	**(156'947)**
Other operating expenses	(58'541)	(76'707)	(8'811)	(11'725)	(1'321)	(1'745)	(62'040)	(57'476)	(130'714)	(147'652)
Wages, salaries and pension costs	(14'095)	(12'658)	(14'034)	(14'989)	(803)	(2'558)	(25'222)	(26'709)	(54'153)	(56'914)
Other income	4'684	4'514	817	1'130	-	-	4'441	25'601	9'942	31'245
Other expenses	-	-	-	-	-	-	(2'227)	(12'946)	(2'226)	(12'946)
EBITDA	**192'377**	**190'049**	**33'899**	**31'789**	**21'557**	**22'856**	**(77'386)**	**(67'593)**	**170'446**	**177'103**

[1] Including hubbing revenue of CHFk 41,459 generated in 2013 and CHFk 29,890 generated in 2012

Reconciliation of net income before interest, tax, depreciation and amortization (EBITDA) CHFk

	January 1 - September 30, 2013 Unaudited	January 1 - September 30, 2012 Unaudited	July 1 - September 30, 2013 Unaudited	July 1 - September 30, 2012 Unaudited
EBITDA from reportable segments	462'479	488'360	170'446	177'103
Unallocated:				
Amortization	(173'883)	(144'385)	(59'068)	(48'230)
Depreciation	(195'409)	(130'893)	(60'819)	(46'939)
Net financial items	(154'126)	(163'825)	(50'713)	(67'011)
Consolidated net (loss) / income before income taxes	**(60'939)**	**49'256**	**(154)**	**14'922**

Note 6 Revenue

CHFk

	January 1 - September 30, 2013 Unaudited	January 1 - September 30, 2012 Unaudited	July 1 - September 30, 2013 Unaudited	July 1 - September 30, 2012 Unaudited
Mobile services	942'785	975'402	329'909	336'024
Landline services	414'746	429'594	140'391	135'437
thereof hubbing	*109'988*	*97'220*	*41'459*	*29'890*
Landline Internet	146'846	135'193	49'748	45'631
Total	**1'504'377**	**1'540'189**	**520'047**	**517'092**

	January 1 - September 30, 2013 Unaudited	January 1 - September 30, 2012 Unaudited	July 1 - September 30, 2013 Unaudited	July 1 - September 30, 2012 Unaudited
Sales of goods	107'288	60'079	36'086	20'597
Sales of services	1'397'089	1'480'110	483'961	496'495
Total	**1'504'377**	**1'540'189**	**520'047**	**517'092**

Note 7 Other income and other expenses

CHFk

Other Income	January 1 - September 30, 2013 Unaudited	January 1 - September 30, 2012 Unaudited	July 1 - September 30, 2013 Unaudited	July 1 - September 30, 2012 Unaudited
Early Termination Fees	13'981	15'925	5'502	5'644
Sub-leases	4'090	2'444	1'722	780
Aperiodic settlements of charges for access services calculated using the prices of the Swiss regulator	-	39'941	-	21'205
Income related to the change of MSP	1'280	3'400	1'280	3'400
Reversal of provision for restructuring	1'600	-	1'600	-
Other	402	2'562	(163)	216
Total	**21'353**	**64'272**	**9'942**	**31'245**

Other Expenses	January 1 - September 30, 2013 Unaudited	January 1 - September 30, 2012 Unaudited	July 1 - September 30, 2013 Unaudited	July 1 - September 30, 2012 Unaudited
Costs related to the change of MSP	-	(19'955)	-	(10'315)
Restructuring expenses	(1'726)	(4'792)	(1'186)	(2'933)
Aperiodic settlements of charges for access services calculated using the prices of the Swiss regulator	(1'008)	-	(1'008)	-
Other	(243)	32	(32)	302
Total	**(2'977)**	**(24'715)**	**(2'226)**	**(12'946)**

Note 8 Depreciation and amortization

Depreciation and amortization recorded during the nine-month period ending September 30, 2013 increased from CHF 275.3 million to CHF 369.3 million. The increase in depreciation and amortization was primarily driven by non-recurring write-offs of CHF 48.1 million related to the replacement of our mobile radio network with multi standard radio equipment performed during the first nine months of 2013, depreciations related to IPTV customer premises equipment depreciation of the spectrum license (CHF 22.6 million) acquired in July 2012 and additional depreciations related to the intangible assets identified during the purchase price allocation of the acquisitions of Lebara and Ortel in Switzerland.

For the three-month period ending September 30, 2013 depreciation and amortization increased to CHF 119.9 million from CHF 95.2 million. The increase was primarily driven by similar effects as the nine-month increase with non-recurring write-offs of CHF 8.9 million related to the replacement of our mobile radio network with multi standard radio equipment performed during 2013 and depreciation of the spectrum license of CHF 7.5 million acquired in July 2012.

Note 9 Common shares, share premium and PECs

CHFk

	Number of shares as of September 30, 2013	Number of Shares as of December 31, 2012	Nominal value (CHF)	September 30, 2013 Unaudited	December 31, 2012 Unaudited
Class A Shares	90'000'000	90'000'000	0.01	900	900
Class B Shares	10'000'000	10'000'000	0.01	100	100
Share premium				125'876	125'876
Series A Preferred Equity Certificates	62'589'067'221	64'395'976'353	0.01	625'890	643'960
Series B Preferred Equity Certificates	7'550'384'405	7'768'359'511	0.01	75'504	77'683
Total Common shares, share premium and PECs				**828'270**	**848'519**

Share capital

The total authorized and issued number of ordinary shares comprises 100,000,000 shares with a nominal value of CHF 0.01 each.

PIK (Payment in kind) Repayment

Sunrise Communications Holdings S.A. repaid PECs A and PECs B plus accrued interests in the amount of CHF 20.5 million in February 2013 and CHF 26.7 million in September 2013 to Mobile Challenger Intermediate Group S.à r.l., which used these proceeds to early repay the outstanding amount of EUR 16.4 million of its PIK loan including accrued interest and due interests amounting to CHF 27.02 million of its PIK toggle note.

Valuation reserve

Valuation reserve comprises fair value changes of derivative instruments that qualify as cash flow hedges. The fair value changes are recognized net of tax.

Accumulated deficit

Actuarial gains and losses, net of taxes, and the result for the current period and earnings or losses carried forward are recognized in accumulated deficit.

Note 10 Net financial items CHFk

	Interest	Fair value adjustments	Total financial income and (expenses) before foreign currency	Net foreign currency gains/(losses)	January 1 - September 30, 2013 Unaudited Total
Income					
Cash and cash equivalents	355	-	355	510	865
Derivatives – used for hedging [1)]	84'945	22'986	107'931	-	107'931
Interest rate derivatives	13	639	652	-	652
Total Income	**85'313**	**23'625**	**108'938**	**510**	**109'448**
Expenses					
Financial liabilities measured at amortized cost	(136'913)	-	(136'913)	(19'360)	(156'273)
Derivatives – used for hedging [1)]	(85'153)	-	(85'153)	-	(85'153)
Interest rate derivatives	(592)	-	(592)	-	(592)
Embedded derivatives [2)]	-	(8'934)	(8'934)	-	(8'934)
Other	(12'431)	-	(12'431)	(191)	(12'622)
Total Expenses	**(235'089)**	**(8'934)**	**(244'023)**	**(19'551)**	**(263'574)**
Net financial items	**(149'776)**	**14'691**	**(135'085)**	**(19'041)**	**(154'126)**

	Interest	Fair value adjustments	Total financial income and (expenses) before foreign currency	Net foreign currency gains/(losses)	January 1 - September 30, 2012 Unaudited Total
Income					
Cash and cash equivalents	4'958	-	4'958	-	4'958
Financial liabilities measured at amortized cost	-	-	-	6'468	6'468
Derivatives – used for hedging [1)]	79'147	4'322	83'469	-	83'469
Interest rate derivatives	63	186	249	-	249
Embedded derivatives [2)]	-	24'929	24'929	-	24'929
Other	224	-	224	2'830	3'054
Total Income	**84'392**	**29'437**	**113'829**	**9'298**	**123'127**
Expenses					
Cash and cash equivalents	-	-	-	(2'175)	(2'175)
Financial liabilities measured at amortized cost	(178'568)	-	(178'568)	-	(178'568)
Derivatives – used for hedging [1)]	(80'458)	(16'959)	(97'417)	-	(97'417)
Interest rate derivatives	(592)	389	(203)	-	(203)
Other	(8'589)	-	(8'589)	-	(8'589)
Total Expenses	**(268'207)**	**(16'570)**	**(284'777)**	**(2'175)**	**(286'952)**
Net financial items	**(183'815)**	**12'867**	**(170'948)**	**7'123**	**(163'825)**

[1)] 'Derivatives – used for hedging' includes derivatives for which hedge accounting is applied as well as economic hedges. The Group classifies as economic hedges hedging relationships that represent effective hedges both economically and within the scope of the Group’s hedge strategy but do not fulfill the IFRS criteria for hedge accounting. Consequently, changes in fair value of economic hedges are recognized in the statement of income.

[2)] Embedded derivatives represent early redemption options related to financial instruments issued by the Group.

Note 10 Net financial items (continued) CHFk

	Interest	Fair value adjustments	Total financial income and (expenses) before foreign currency	Net foreign currency gains/(losses)	July 1 - September 30, 2013 Unaudited Total
Income					
Cash and cash equivalents	36	-	36	-	36
Financial liabilities measured at amortized cost	-	-	-	6'206	6'206
Derivatives – used for hedging [1]	28'312	-	28'312	-	28'312
Interest rate derivatives	4	200	204	-	204
Embedded derivatives [1]	-	3'169	3'169	-	3'169
Total Income	**28'352**	**3'369**	**31'721**	**6'206**	**37'927**
Expenses					
Cash and cash equivalents	-	-	-	(283)	(283)
Financial liabilities measured at amortized cost	(47'644)	-	(47'644)	-	(47'644)
Derivatives – used for hedging [1]	(28'417)	(5'974)	(34'391)	-	(34'391)
Interest rate derivatives	(204)	-	(204)	-	(204)
Other	(5'901)	-	(5'901)	(217)	(6'117)
Total Expenses	**(82'166)**	**(5'974)**	**(88'140)**	**(500)**	**(88'640)**
Net financial items	**(53'814)**	**(2'605)**	**(56'419)**	**5'706**	**(50'713)**

	Interest	Fair value adjustments	Total financial income and (expenses) before foreign currency	Net foreign currency gains/(losses)	July 1 - September 30, 2012 Unaudited Total
Income					
Cash and cash equivalents	3'869	-	3'869	163	4'032
Derivatives – used for hedging [1]	24'996	4'322	29'318	-	29'318
Interest rate derivatives	23	186	209	-	209
Embedded derivatives [2]	-	24'929	24'929	-	24'929
Other	-	-	-	2'838	2'838
Total Income	**28'888**	**29'437**	**58'325**	**3'001**	**61'325**
Expenses					
Financial liabilities measured at amortized cost	(87'110)	-	(87'110)	(11'823)	(98'933)
Derivatives – used for hedging [1]	(25'434)	(0)	(25'434)	-	(25'434)
Interest rate derivatives	(198)	-	(198)	-	(198)
Other	(3'771)	-	(3'771)	-	(3'771)
Total Expenses	**(116'513)**	**(0)**	**(116'513)**	**(11'823)**	**(128'336)**
Net financial items	**(87'625)**	**29'437**	**(58'188)**	**(8'823)**	**(67'011)**

[1] 'Derivatives – used for hedging' includes derivatives for which hedge accounting is applied as well as economic hedges. The Group classifies as economic hedges hedging relationships that represent effective hedges both economically and within the scope of the Group’s hedge strategy but do not fulfill the IFRS criteria for hedge accounting. Consequently, changes in fair value of economic hedges are recognized in the statement of income.

[2] Embedded derivatives represent early redemption options related to financial instruments issued by the Group.

Note 11 Borrowings

CHFk

	Nominal value at inception	Foreign exchange movement[1)]	Capitalized debt issuance cost including discounts and premium[1)]	Loan and finance lease repayments	September 30, 2013 Carrying value Unaudited	December 31, 2012 Carrying value Unaudited
Floating rate						
Floating Rate Notes - CHF	175'000	-	-	(175'000)	-	171'635
Floating Rate Notes - EUR	200'570	3'823	(3'309)	-	201'084	197'819
Revolving Credit Facility - CHF	95'000	-	-	-	95'000	-
Fixed rate						
Senior Secured Notes - CHF	300'000	-	(8'364)	-	291'636	290'250
Senior Secured Notes - CHF	370'000	-	(6'046)	-	363'954	362'873
Senior Secured Notes - EUR	650'384	(43'325)	(8'504)	-	598'555	589'080
Senior Notes - EUR	755'942	(69'328)	(21'970)	-	664'643	652'951
Total loans and notes	**2'546'896**	**(108'830)**	**(48'193)**	**(175'000)**	**2'214'872**	**2'264'608**
Other						
Debt relating to finance leases	-	-	-	(3'439)	36'939	40'378
Total borrowings	**-**	**-**	**-**	**(178'439)**	**2'251'811**	**2'304'986**
Of which expected to be paid within 12 months	-	-	-	-	5'903	5'634
Total long-term borrowings	**-**	**-**	**-**	**-**	**2'245'908**	**2'299'352**

1) since issuance of the borrowings

The Group's borrowings are governed by a number of financial covenants specified in the Revolving Credit Facility. The main covenants consist of a leverage ratio and an interest cover ratio. The Group performs quarterly covenant testing. The last covenant testing was performed as of September 30, 2013 showed that the Group was in compliance with the applicable financial covenants.

Liabilities relating to finance leases are related primarily to lease agreements of fiber networks

Note 12 Derivatives

CHFk

Derivative financial instruments are reported in the Consolidated Interim Statement of Financial Position as follows:

	September 30, 2013 Notional Amount	December 31, 2012 Notional amount	September 30, 2013 Fair value assets	September 30, 2013 Fair value liabilities	December 31, 2012 Fair value assets	December 31, 2012 Fair value liabilities
Cross currency interest rate swaps – fixed rate borrowings	1'256'198	1'418'076	-	(130'422)	-	(159'085)
Total cash flow hedges	**1'256'198**	**1'418'076**	**-**	**(130'422)**	**-**	**(159'085)**
Cross currency interest rate swaps – fixed rate borrowings [1]	161'878	-	-	(9'773)	-	(13'125)
Cross currency interest rate swaps – variable rate borrowings [2]	200'570	200'570	1'905	-	-	(2'470)
Total economic hedges	**362'448**	**200'570**	**1'905**	**(9'773)**	**-**	**(15'595)**
Interest rate cap	-	100'000	-	-	-	-
Interest rate swap	100'000	100'000	-	(194)	-	(833)
Total interest rate derivatives	**100'000**	**200'000**	**-**	**(194)**	**-**	**(833)**
Embedded derivatives [3]	-	-	23'469	-	32'403	-
Total embedded derivatives	-	-	**23'469**	-	**32'403**	-
Total derivatives	**-**	**-**	**25'374**	**(140'389)**	**32'403**	**(175'513)**

[1] Cross currency interest rate swap related to the Senior Secured Note EUR 125 million. The group discontinued cashflow hedge accounting during the 2nd quarter 2013 and reclassified the financial instrument to 'held for trading'.

[2] Cross currency interest rate swap related to the Floating Rate Note EUR 167 million.

[3] Embedded derivatives represent early redemption options related to financial instruments issued by the Group.

	January 1 - September 30, 2013 Unaudited	January 1 - September 30, 2012 Unaudited	July 1 - September 30, 2013 Unaudited	July 1 - September 30, 2012 Unaudited
The change in the fair value of derivatives in the period can be summarized as:				
Cash flow hedges – movement in hedge reserve	18'490	(21'344)	(3'339)	(6'795)
Cash flow hedges – ineffectiveness	121	172	-	172
Economic hedges	4'375	8'535	(2'635)	10'945
Total impact of hedging derivatives in the Statement of Income (note 10)	**22'986**	**(12'637)**	**(5'974)**	**4'322**
Impact of interest rate derivatives in the Statement of Income (note 10)	639	575	200	186
Impact of embedded derivatives in the Statement of Income (note 10)	(8'934)	24'929	3'169	24'929
Total impact of derivatives in the Statement of Income (note 10)	**14'691**	**12'867**	**(2'605)**	**29'437**

Note 13 Fair value estimation

The fair value of current financial assets and liabilities at amortized cost are assumed to approximate their carrying amounts due to the short-term nature of these financial instruments.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: Techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data

The table below shows a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the consolidated financial statements:

CHFk

	Measurement principle	September 30, 2013 Fair value	September 30, 2013 Carrying value	December 31, 2012 Fair value	December 31, 2012 Carrying value
Cash [1)]	Amortized Cost	125'783	125'783	170'601	170'601
Trade and other receivables [1)]	Amortized Cost	348'482	348'482	336'058	336'058
Other non-current assets [1)]	Amortized Cost	200	200	153	153
Derivative assets - held for trading	Fair Value - Level 2	25'374	25'374	32'403	32'403
Total financial assets		**499'839**	**499'839**	**539'215**	**539'215**
Trade payables and other payables [1)]	Amortized Cost	(662'049)	(662'049)	(564'904)	(564'904)
Loans and notes	Amortized Cost	(2'295'905)	(2'214'872)	(2'492'570)	(2'264'608)
Financial leases	Amortized Cost	(36'939)	(36'939)	(40'378)	(40'378)
Derivative liabilities - held for trading	Fair Value - Level 2	(194)	(194)	(833)	(833)
Derivative liabilities - held for hedging	Fair Value - Level 2	(130'422)	(130'422)	(159'085)	(159'085)
Other current liabilities	Amortized Cost	(1'627)	(1'627)	(2'722)	(2'722)
Total financial liabilities		**(3'127'136)**	**(3'046'103)**	**(3'260'492)**	**(3'032'530)**

1) Carrying amount approximates the estimated fair value due to the short-term nature of the financial instruments.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
There have been no transfers between the different hierarchy levels during the three and the nine month period ended September 30, 2013.

Note 14 Change in net working capital

CHFk

	January 1 - September 30, 2013 Unaudited	January 1 - September 30, 2012 Unaudited	July 1 - September 30, 2013 Unaudited	July 1 - September 30, 2012 Unaudited
Change in inventories	877	(9'835)	5'900	13'232
Change in trade and other receivables	108	(32'169)	(8'164)	(26'020)
Change in trade and other payables	11'209	(99'043)	25'543	(28'171)
Change in other items, net	3'005	(11'582)	13'491	7'750
Total	**15'199**	**(152'629)**	**36'770**	**(33'209)**

The table above outlines cash relevant transactions which have been recognized in the caption 'change in net working capital' in the condensed consolidated interim statement of Cash Flow of the Group (see page 17).

Note 15 Other balance sheet items

Trade and other payables

The increase of CHF 88.0 million in trade and other payables for the nine-month period ended September 30, 2013 is mainly attributable to accrued interests for derivative instruments and borrowings issued by the Group.

Non-current trade and other payables

This financial statement item is mainly related to the acquisition of the spectrum licenses in 2012 and consists of the 2nd and the 3rd installments due in 2015 and 2016 respectively.

Note 16 Business combinations

On July 1, 2013, Sunrise Communications AG acquired 100% of the common shares of Lebara GmbH, Switzerland, a company focusing on mobile prepaid services with strong customer needs for low cost international tariffs for calls from Switzerland to abroad. The combination of the Lebara brand with yallo will significantly strengthen Sunrises customer focus for prepaid mobile services.

On July 18, 2013, Sunrise Communications AG also acquired 100 % of the common shares of Treternity Ortel Mobile AG, Switzerland, another company focusing on mobile prepaid services with strong customer needs for low cost international tariffs for calls from Switzerland to abroad.

With this acquisition, Sunrise further strengthens its footprint in multicultural communities.

The Goodwill of CHF 82.8 million arising from the acquisition is attributable to synergistic benefits identified by Sunrise Management, the value inherent in complementing the yallo offering and the value associated with the Lebara Group distribution channels and the Lebara and Ortel workforce being an intangible asset which could not be separately recognized under the requirements of IFRS 3 Business Combinations. The goodwill is not deductible for tax purposes

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The following table summarizes the consideration paid for Lebara GmbH, Switzerland and Treternity Ortel Mobile AG, Switzerland and the fair value of the net assets acquired:

	CHFk
Total Consideration	**116'671**
Forgiveness of intercompany loan receivable	(13'258)
Cash consideration	**103'413**
Cash and cash equivalents	7'751
Other current assets	7'870
Intangible assets & Property, plant and equipment	30'306
Current liabilities	(17'653)
Non-current liabilities	(7'646)
Goodwill arising on acquisition	**82'785**

The gross contractual amount for trade receivables due was CHF 5.5 million, of which none was expected to be uncollectable. There was no contingent consideration arrangement as part of the acquisition. In the period from the date of acquisition to September 30, 2013 the acquired subsidiaries have contributed CHF 15 million to revenue and a net gain in the amount of CHF 3 million to Sunrise Group's net loss. Had Lebara GmbH and Treternity Ortel Mobile AG been consolidated from January 1, 2013 the consolidated Statement of Income would show revenue of CHF1,531.5 million and a net loss of CHF 76.9 million.

Note 17 Dividend distribution

No dividend resolutions have been taken by the Board of Directors of Sunrise Communications Holdings SA – the ultimate parent of the group – or any other entity of the Group during the period under review (during the first nine months of the year 2013).

Note 18 Contractual commitments

During the first nine months of the year, Sunrise Communications AG entered into multiple supply contracts with a minimal financial commitment of CHF 71.3 million.

Note 19 Financial risk management

The recent development on the FX market and the strong Swiss franc do not have a material net effect on the Group, as Sunrise is predominantly active in its domestic market. A material part of the foreign currency risk arising from loans and notes denominated in Euros and the interest rate risk arising from external loans and notes have been hedged by the Group using derivative instruments.

Note 20 Events after the balance sheet date

Change in Management Board of Sunrise Communications AG
In November 2013, Max Nunziata joined the Sunrise Management Board as Chief Customer Experience Officer.

Material contracts
In November 2013, Sunrise Communications AG renegotiated existing contracts with suppliers with commitments for future investments into tangible and intangible assets of CHF 62.7 million for the years 2013 to 2017, partly replacing existing commitments.